A window of opportunity

Avid Oil & Gas Ltd.
1998 Annual Report

Corporate Profile

Avid Oil & Gas Ltd. is an emerging junior oil and gas exploration and production company operating in western Canada with headquarters in Calgary, Alberta. Since its initial public offering in July 1997, Avid has continued to grow its production base to current levels of over 400 barrels of oil equivalent per day. Avid is strategically positioned with a strong balance sheet, positive cash flow, and a solid management team to identify and prosper from growth opportunities throughout the oil and gas price cycles. Avid's shares trade on the Alberta Stock Exchange under the symbols AVO.A and AVO.B.

Notice of Annual Meeting

The Annual General Meeting of shareholders will be held on Thursday, June 17, 1999 at 3:00 pm MST in the Sheraton Suites, Calgary Eau Claire, Willow Room, 255 Barclay Parade SW, Calgary, Alberta. All shareholders are encouraged to attend.

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A window of opportunity

As oil and natural gas prices reach low points, a window of opportunity opens to add low-cost reserves through reduced costs for drilling, land, operations and acquisitions.

Letter to the Shareholders

Nineteen ninety-eight was a remarkable year for Avid as significant progress was made despite low oil prices. During our first full year of operations since becoming a public company, oil prices fell to record low levels. In this environment, Avid chose a careful plan of action to control costs and to take advantage of a window of opportunity to grow the value of the Company.

1998 Achievements

As stated in our 1997 Annual Report, Avid's plans for 1998 called for an investment program of $8 million and we expected to exit the year with production of 800 to 900 barrels of oil equivalent per day (boepd). Due to low oil prices, our investment program was reduced to $5 million, which led to fewer wells drilled and a lower than expected exit production rate. However, the Company was able to achieve progress in a number of critical growth areas and to take advantage of opportunities for future success.

Our accomplishments during the year included;

- A 638% increase in production.
  Avid entered 1998 producing 47 boepd and exited the year producing 347 boepd to average 175 boepd for the period. Current production in 1999 is over 400 boepd.

- A 435% increase in land holdings.
  Avid's net land position grew to 9,987 acres from 1,866 acres in 1997.

- A 385% increase in reserves.
  Our established reserves base grew to 742,000 BOE from 153,000 BOE in the previous year.

- 17 wells drilled.
  Avid drilled 17 (9.30 net) wells, resulting in nine (3.86 net) oil wells, and four (2.24 net) gas wells for an overall success rate of 76%.

- Two new oil pool discoveries.
  Through full-cycle exploration, Avid discovered two new pools in Consort. One pool was developed during the year, and the other has three to five development locations to be drilled in 1999.

"Avid is strategically positioned with a strong balance sheet, positive cash flow, and a solid management team to identify and prosper from growth opportunities throughout oil and gas price cycles."

Industry Overview

Commodity prices in 1998 reached the lowest levels of more than a decade, creating a challenging situation for most participants in the Canadian oil and gas industry. During the year, the West Texas Intermediate (WTI) oil price fell from $16.73 US/bbl in January to $11.27 US/bbl in December. The 1998 average price was $14.42 US/bbl compared to an average of $20.61 US/bbl for 1997. Throughout 1998, natural gas prices remained relatively strong.

Positive Actions

In this environment of low oil prices, Avid undertook some positive measures to ensure the ongoing viability of our business. We carefully managed costs and production for continued cash flow and financial resilience. We also maintained an exploration program to earn land positions and to inventory future development opportunities.

Although the oil prices hindered our cash flow, we were able to achieve an average netback wellhead price of $9.00 Cdn/BOE for the year. We believe that when oil prices increase as expected, Avid will be prepared with a strong portfolio of development opportunities and continued financial strength.

A Window of Opportunity

The current low prices have created a unique window of opportunity for Avid. Numerous oil-producing companies with high debt levels are seeking partners for exploration prospects. Avid's business plan for 1999 is to pursue these prospects and to inventory as many development opportunities as possible for the next price cycle.

The low point in the price cycle is also providing many merger and acquisition opportunities for companies such as Avid. An appropriate merger or acquisition could provide our Company with new development projects and a more balanced oil/gas production portfolio. We have the financial resources, the technical capability and the desire to pursue these various vehicles for growth.

“

In this environment, Avid chose a careful plan of action to control costs and to take advantage of a window of opportunity to grow the Company.

“

Outlook

For 1999, Avid intends to embark on a drilling program that will complete our flow-through obligations, while capturing as many land and development opportunities as possible. At the same time, we will evaluate acquisition and merger opportunities to ensure the most cost-effective growth for the Company. Our base business plan calls for a capital investment program of $4.5 million which would provide for up to 15 low-risk development wells during the year. Production is expected to average 480 boepd, with a year-end production rate of 630 boepd.

With price assumptions of WTI $14.00 US/bbl and $2.30 Cdn/Mcf for gas, Avid would generate $1.1 million of cash flow ($0.20 per share basic) and debt would not exceed two-times trailing cash flow. It is important to keep in mind that our base case scenario is relatively low risk. For each $1.00 US/bbl improvement in the oil price, Avid's cash flow increases 20 % ($0.04/share). We expect that as oil prices improve, we will be able to substantially increase our production rates by drilling development locations to maximize the Company's value.

Acknowledgements

In closing, I would like to thank the Avid team of employees, directors and shareholders for their continuing efforts, support and commitment. Together, we will face both rewarding and challenging circumstances in this industry. The achievements of our first full year of operations have created the foundation for a strong Company with the capability to prosper through all price cycles.

On behalf of the Board of Directors,

Allen Bey
President, CEO and Chairman of the Board
April 15, 1999

Areas of Operation

Consort

Consort, Alberta is Avid's core area of operations, providing all of the Company's production during 1998. In this area Avid owns 12,986 (6,903 net) acres of land, with an average working interest of 53%. The Company has 22 oil wells, five gas wells, and a 16.5% working interest in an oil processing facility. Avid has an extensive seismic database of both 2D and 3D in this area, which is critical in the exploration for, and development of, new reserves. Our land holdings in this area are well positioned to explore for Mannville Sands, including the Dina, Cummings, Lloydminster, and Colony, and Avid continues to find new exploitation and development opportunities. The oil produced in the Consort area is generally 28 to 30° API. In 1998, production in the area yielded a field netback (after operating royalties) of $8.11 Cdn/bbl. The cost to drill and evaluate a prospect in this area is typically $185,000. To case, complete and equip the well for production, the total cost may reach $325,000. Given that the risk capital for exploring in this area is quite low, yet providing reasonable reserves and production rates, there is readily available infrastructure and year-round access, Consort is an excellent location for Avid's first core area.

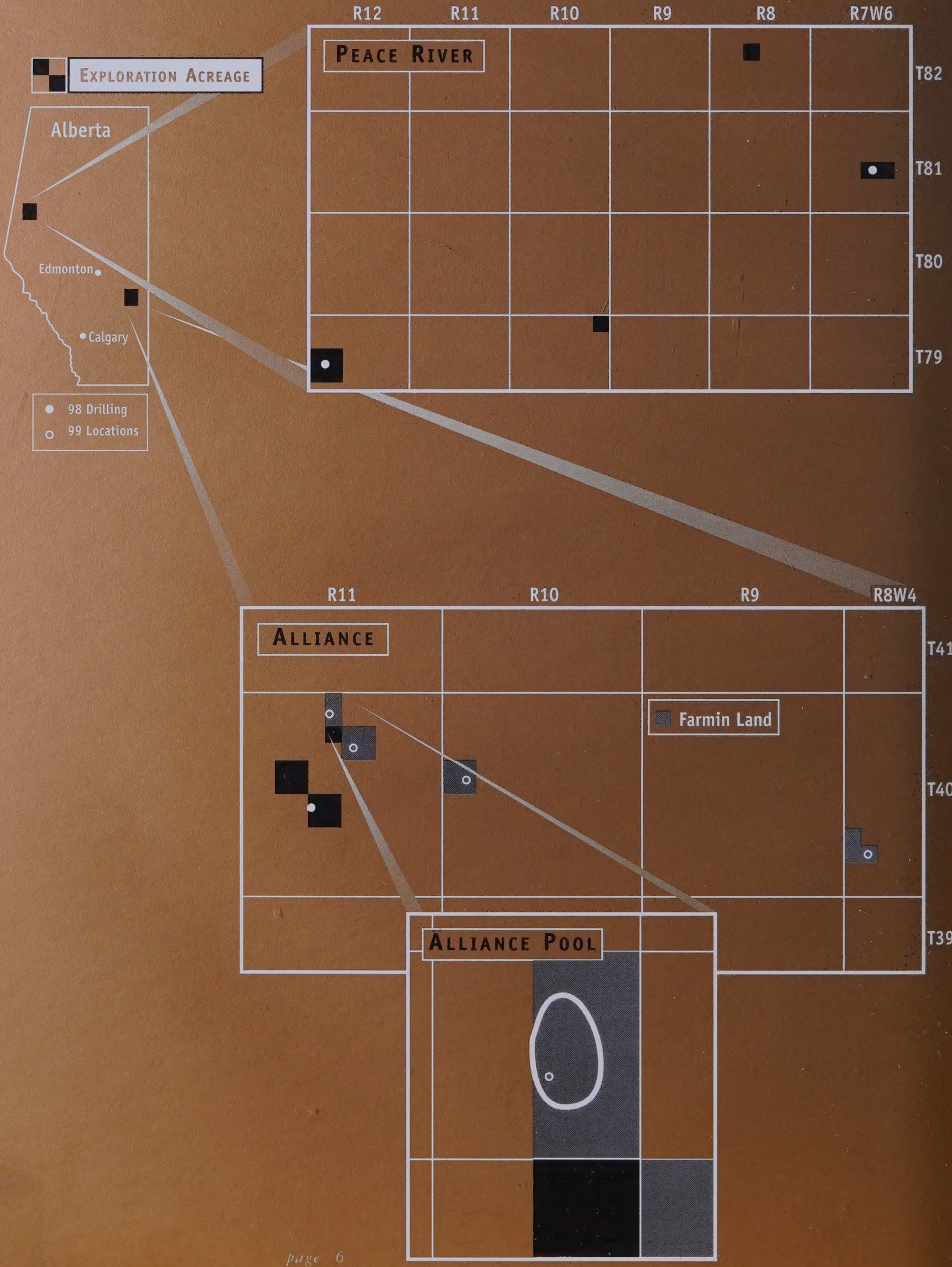
Peace River Arch

During 1998, Avid began to assemble a portfolio of land and drilling prospects in the Peace River Arch area of Alberta. This area is located about 500 km northwest of Edmonton, and can be characterized as multi-zone with high impact reserve potential. Avid began to focus on this area because of our in-house geological expertise, the multi-zone high impact play type, good infrastructure and reasonable year-round access for drilling. By the end of the year, the Company acquired two sections at Crown land sales, and earned six additional sections of land through two separate farm-ins. One well was cased as a Gething gas well with limited reserves, and another abandoned well was re-entered to test a Gething oil zone. The results of these activities were disappointing, however, Avid continues to hold the land with two other separate gas prospects. The Company is in the process of seeking industry partners to test the plays during 1999.

Alliance

Alliance, Alberta is located approximately 100 km northwest of Consort, Alberta. Avid began to assemble a land position in this area during the second half of 1998 through two farm-in agreements. This area is prospective for the Mannville sands including Dina, Glauconite, Lloydminster and Colony, and has similar play types as in Consort. Some of the large producing pools in the Alliance area include Thompson Lake, Blairmore C, Choice, and Shorncliff. During 1998, Avid drilled one unsuccessful well in this area, and by the end of March 1999, had completed another four-well exploration program. That exploration program yielded one gas well which will be completed and tested in the spring of 1999, and one oil well which is currently producing 85 (68 net) bbls/d of oil. The producing oil well has established a significant new development project for the Company which will provide eight to ten development locations.

"Avid will evaluate its inventory of development opportunities as well as acquisition opportunities to determine which course of action would provide the greatest value creation in the long-term."


EXPLORATION ACREAGE
Alberta
Edmonton
Calgary
98 Drilling
99 Locations
PEACE RIVER
R12
R11
R10
R9
R8
R7W6
T82
T81
T80
T79
ALLIANCE
R11
R10
R9
R8W4
T41
T40
T39
Farmin Land
ALLIANCE POOL


Development Acreage
Alberta
Edmonton
Calgary
98 Drilling
99 Locations
Consort
Farmin Land
R7
R6
R5
R4W4
T38
T37
T36
T35
W7W Pool
OO Pool

Land

Avid's land position grew to 18,666 gross acres by the end of 1998 from 4,800 gross acres at the end of 1997. This increase was achieved through a joint venture with Ardent Energy Inc., farm-in agreements with other industry partners, and participation in Crown land sales. During the year, Avid spent a total of $131,140 on Crown land sales to acquire 1,024 net acres at an average cost of $128 per acre.

Net Acres

Land Holdings (Acres)

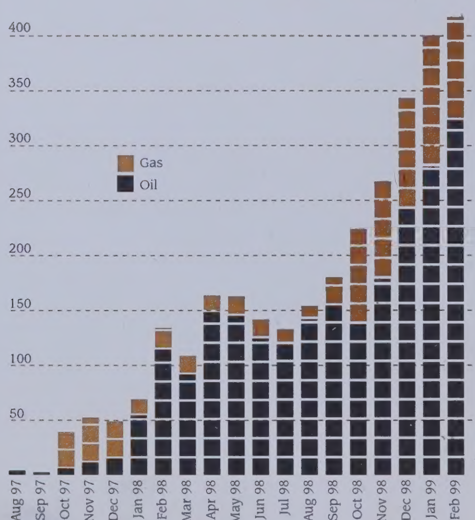
	December 31, 1998		December 31, 1997	
	Gross	**Net**	Gross	Net
Developed	**5,943**	**2,990**	2,880	1,102
Undeveloped	**12,723**	**6,997**	1,920	764
Total	**18,666**	**9,987**	4,800	1,866

Seismic

During 1998, Avid completed a 2.6 km^2 3D seismic program in Consort that yielded the discovery of the Dina W7W Pool. In addition, during the period the Company acquired 28 km^2 of 3D seismic through trade data acquisitions and seismic review agreements.

Production

Avid entered 1998 producing 47 boepd and exited the year producing 347 boepd (71% oil, 29% gas) for an increase during the year of 300 boepd, or 638%. The average production rate for 1998 was 175 boepd. For the first quarter of 1999, Avid is expecting to average 395 boepd.



Production History (boepd)

Drilling

During 1998, Avid participated in the drilling of 12 (7.70 net) exploration wells, and five (1.6 net) development wells. Of the total 17 wells, nine (3.86 net) were cased as oil wells, four (2.24 net) were cased as gas wells, and four (3.20 net) were abandoned, yielding a 76% success rate overall. The last well drilled in the year resulted in the discovery of a new oil pool (Dina W7W). The discovery well is currently producing 180 bpd (100% WI) and the 3D seismic survey on the pool shows three to five additional development locations. Though it is economical to drill and produce these wells at current oil prices, the development of this pool will be deferred until the second half of 1999 when it is expected that oil prices will be higher. During 1998, with the drilling program weighted 80% towards exploration wells, Avid's finding, development and on-stream costs were $9.05/bbl for proved reserves, and $6.50/bbl for proved and probable reserves.

By the end of March 1999, Avid completed its winter drilling program, participating in five (4.0 net) exploration wells. The drilling program has resulted in one oil well, one gas well, and three abandoned wells. The oil well is currently producing at a rate of 85 (68 net) bpd, and a 3D seismic survey over the pool supports the drilling of eight to 10 development locations. The gas well will be completed and tested after spring breakup.

Reserves

During 1998 Avid increased its total established reserves by 385% to 742 MBOE from 153 MBOE in 1997. This reserves growth replaced the 1997 annual production of 64,044 BOE by 9.2 times.

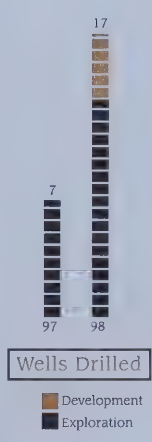
Gilbert Laustsen Jung Associates Ltd. as at December 31, 1998 independently evaluated Avid's reserves as follows:

	Oil	Gas	BOE	Net Present Value BTAX/discounted at: ($000's)		
	(mbbls)	(MMcf)	(mbbls)	10%	12%	15%
Proved Producing	361	330	394	3,530	3,360	3,310
Total Proved	562	470	609	4,800	4,550	4,220
Established*	692	501	742	5,600	5,280	4,870

*Established = Proven + 1/2 Probable

1999 Activities

During the first half of 1999, Avid plans to drill up to eight wells. This activity will allow the Company to complete its spending obligation under the original agreement for the initial public offering and renounce the appropriate tax pools to the original Class B shareholders. The Company has both the financial capability and the requirement to drill these wells and the low commodity price environment is enabling Avid to obtain favourable farm-in agreements associated with this activity. Once completed, Avid will evaluate its inventory of development opportunities in conjunction with the acquisition opportunities the market provides to determine which course of action would provide the greatest value creation in the long-term. The exploration drilling activity of 1998 and 1999 to date, has provided Avid with up to 15 development drilling locations in two new pools for 1999. This inventory of low risk development opportunity strategically positions Avid to maintain production and cash flow through the low price environment. In addition, a variety of acquisition and merger opportunities are being reviewed that could provide Avid with additional development opportunities, and a more balanced oil/gas production mix. Avid is positioned to prosper through a rapid increase in production and cash flow once oil prices improve.



The Management's Discussion and Analysis provides our shareholders with a detailed disclosure of Avid's performance during the year. Although Avid has been in operation since April 1997, 1998 is the first year that an income statement is presented. This is because Avid's operations in 1997 were in a pre-production stage and did not reach commercial production in that year.

The following discussion and analysis should be read in conjunction with the audited financial statements of Avid for the year ended December 31, 1998.

Management's Discussion and Analysis

Operational Review

Avid entered 1998 producing 47 boepd and exited the year producing 347 boepd, for an increase during the year of 300 boepd, or 638%. Exit production consisted of 71% oil and 29% gas production. During 1998 production averaged 175 boepd and recorded gross production revenue was $1,090,580 for the 12-month period. Avid obtained an average sales price of $15.48/bbl of crude oil and $2.29/Mcf of natural gas for a combined price of $17.03 per barrel of oil equivalent. Royalty expenses were $100,100, or 9% of production revenue, as a result of ARTC and royalty holidays, while production costs were $413,878, or $6.46/BOE. Other income of $122,114 consisted primarily of interest income on the cash balance of $905,049 at the period-end. Depreciation and depletion charges against income were $2,564,783 which included a write-down of capital assets of $2,100,000 at September 30,1998. The general and administrative expenses were $458,199 for the period. This has resulted in a net loss for the 12 months of $2,324,266, or $0.16 per share, with positive cash flow of $240,517, or $0.02 per share. Despite this period of low oil prices, Avid averaged a field netback of $9.00/BOE. Capital expenditures for the period were $4,969,872, and Avid continues to have a working capital surplus of $914,949 and unused credit facilities of $1,600,000 to fund future capital expenditures and ongoing operations.

"Avid maintains a low cost structure and carefully monitors expenditures to avoid undue reliance on debt."

Liquidity & Capital Resources

During 1998 the oil price declined in excess of 30% and currently remains low relative to historical price levels. This price scenario negatively impacted the cash flow and overall viability of oil producers. It is also having an adverse affect on the ability to raise funds through the equity markets which has been particularly acute in the case of smaller junior oil producers. Given these conditions, it is essential to achieve and maintain a low cost structure and be vigilant in monitoring expenditures to avoid undue reliance on debt. These efforts will allow for continued liquidity and the ability to capitalize on exceptional business opportunities.

During 1999 Avid must continue to incur $1,422,113 in qualified expenditures to flow through to our shareholders as promised in our initial public financing which concluded in July, 1997. We have forecast that we can meet this obligation while withstanding continued low WTI oil prices in the

range of $9.25US/bbl from March to the end of 1999, while continuing to generate positive cash flow to fund ongoing operations.

During 1998, Avid incurred capital expenditures on oil and natural gas assets of $4,969,872 and renounced tax pools to the investors of $2,019,189 for a net increase in capital assets of $2,950,684.

Capital Expenditures-1998	
Land	$ 410,151
Geological and geophysical	744,516
Drilling, completion and equipment	3,815,206
Tax benefits renounced	(2,019,189)
Increase in capital assets	$ 2,950,684

1998 Share Trading Activity	$ per class A share
Initial value in public financing	0.20
High	1.50
Low	0.28
Close	0.28
Volume	217,000
1998 Wtg. Avg.	1.07

Net Asset Value

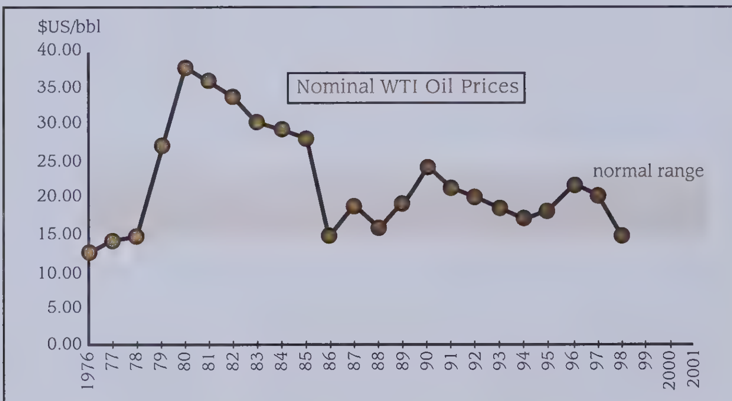
Using the reserve evaluations of Gilbert Laustsen Jung Associates Ltd., and our internal undeveloped land evaluation, the net asset value of the Company at year-end 1998 was $1.32 per share (basic).

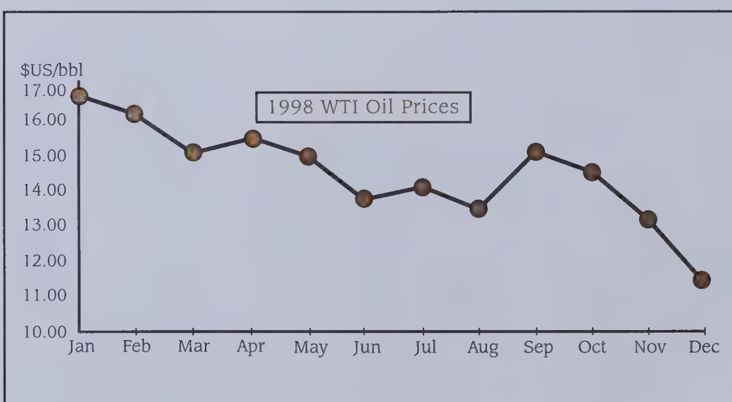
(000)'s - except per share	**Dec 31/98**	Dec 31/97
Reserves (P+1/2 PA, BTAX 15%)	**$ 4,870**	$ 1374
Land	**935**	76
Seismic (proprietary)	**1,043**	958
Working Capital	**915**	5,644
Abandonment Liabilities	**(287)**	(70)
Total Net Asset Value	**$ 7,476**	$ 7,982
A Share Price Dec 31	**$ 0.28**	$ 1.39
A Shares Outstanding	**5,674**	5,674
B Shares	**843**	843
B Share Conversion (10:1-1998; 7.2:1-1997)	**8,433**	6,065
Total A Shares	**14,107**	11,739
NAV/Share (basic)	**$ 1.32**	$ 1.41
NAV/Share (Fully Diluted)	**$ 0.53**	$ 0.68
GLJ WTI Price Assumption for first year	**$ 15.00**	$ 19.00

Commodity Prices

Avid's business plan for 1999 has assumed a WTI oil price of $14.00 US/bbl, and a gas price of $2.30 Cdn/Mcf at the wellhead.

During 1998, oil prices for West Texas Intermediate averaged $14.42 US/bbl compared to a price of $20.61 US/bbl in 1997. In nominal terms (dollars of the day) the oil price has not been this low since 1977. Over the course of 1998, WTI oil prices fell from a high in January of $16.73 US/bbl to a low in December of $11.27 US/bbl, a 33% drop.





Low oil prices have resulted essentially from excess supply in a market where demand growth is falling. The excess supply has resulted from the non-OPEC producers increasing production capacity during a period when oil prices were greater than $20.00 US/bbl (96-97). OPEC countries attempted to increase their market share through increased quotas, and Iraqi production returned to the market as the economic sanctions were lifted. On the demand side, economic growth in Asia began to falter as these countries experienced fiscal difficulties, and North America was exposed to warmer than normal weather patterns which reduced heating demand.

At the beginning of 1999, the forces of supply and demand for oil appear to be moving in line. Capital investment in the oil and gas industry world wide has been dramatically reduced, and production declines are beginning to materialize in the supply picture. OPEC has trimmed some portion of its production, and appears motivated to continue. Low oil prices will tend to promote economic activity and growth appears to be recovering in the developing nations. As supply and demand move into balance, it is expected that the oil price will recover to the "normal" $15.00 to $22.00 US/bbl (WTI) range.

Avid's gas production is currently sold into the spot market. For 1999, it is expected that the Company will receive an average price of \$2.30/Mcf at the wellhead. Intra-Alberta gas prices have remained strong during the last year (1998 average = \$2.29/Mcf) and are expected to continue to do so as new export capacity is brought on stream. This extra pipeline capacity has reduced the basis differential between Alberta (AECO) and NYMEX to \$0.20 - \$0.30 US/MMBTU. With an exchange rate of \$0.65 US/Cdn and a \$0.20 US /MMBTU basis differential, a \$2.30 Cdn/Mcf wellhead price only requires a NYMEX price of \$1.79 US/MMBTU

Business Conditions and Risks

The business of exploration, acquisition, and development of oil and gas reserves involves a number of uncertainties and in turn, poses a number of risks to Avid and the industry as a whole. These risks are numerous and varied, and therefore, it is not possible to quantify their financial impact. The primary uncertainties include the volatility of commodity prices, exchange rates and whether exploration and development expenditures will yield an economically viable project given those commodity prices. To offset the risks associated with the exploration for and development of oil and gas reserves, Avid has assembled a management team with extensive industry experience and uses state of the art technology.

The Avid Team (l to r):
Brandy Eastman, Stuart Symon, Allen Bey, Darrell Ibach,
Carla Moodie, Jeff Campbell, Lindsay Gray

Corporate Governance

Avid's Board of Directors is responsible for establishing the Corporation's strategic direction and operating philosophy, and then monitoring management's conduct and performance.

The Board of Directors for Avid Oil & Gas Ltd. is comprised of four members of which three are independent and one is senior management of the Corporation, ensuring independence of the Board. They consider and approve annual operating and capital budgets within which the management is expected to operate. Any material deviations from these parameters require Board approval.

Avid has established an Audit Committee which is comprised of three outside Board members.

Avid makes extensive use of third-party computer software to assist in its daily operations. We are concerned that all our systems are compliant with the arrival of the new millennium and will continue to operate as intended. To address that concern, we have completed an inventory of our major business applications and have installed upgrades to these applications to allow them to operate correctly in the year 2000. These upgrades were provided by leading industry software vendors and have been tested to ensure compliance with the issues that could arise next year. Avid will continue to review the remainder of our systems and take the necessary steps to ensure they will be compliant by the end of 1999.

Management's Report

To the Shareholders of Avid Oil & Gas Ltd.

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The financial statements have been prepared by management in accordance with accounting principals generally accepted in Canada and where necessary, contain estimates based upon management's informed judgments.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibility as they relate to the fairness of reported operating results and financial condition of the Corporation. The Audit Committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the financial statements.

Allen Bey
President and Chief Executive Officer

Stuart Symon
Vice President Finance

Calgary, Canada
March 12, 1999

Auditors' Report

To the Shareholders of Avid Oil & Gas Ltd.

We have audited the balance sheets of Avid Oil & Gas Inc. as at December 31, 1998 and 1997 and the statement of loss and deficit for the year ended December 31, 1998 and the statement of changes in financial position for the year ended December 31, 1998 and from incorporation on January 13, 1997 to December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations for the year ended December 31, 1998 and the changes in its financial position for the year ended December 31, 1998 and from incorporation on January 13, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 12, 1999

BALANCE SHEETS

	December 31, 1998	December 31, 1997
Assets		
Current assets:		
Cash	**$ 905,049**	$ 6,884,234
Accounts receivable	**434,762**	673,311
Prepaid expenses	**29,550**	6,076
	1,369,361	7,563,621
Capital assets (note 3)	**2,454,340**	2,022,098
	$ 3,823,701	$ 9,585,719
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 454,412**	$ 1,919,317
Future site restoration	**47,358**	–
Shareholders' equity:		
Share capital (note 4)	**5,646,197**	7,666,402
Deficit	**(2,324,266)**	–
	3,321,931	7,666,402
Commitment (Note 4)		
Subsequent Event (note 9)		
	$ 3,823,701	$ 9,585,719

See accompanying notes to financial statements.

Approved on behalf of the Board:

Allen Bey
Director

Stuart Clark
Director

STATEMENT OF LOSS AND DEFICIT

Year ended December 31, 1998

Revenue:	
Gross production revenue	$ 1,090,580
Less: net royalties	(100,100)
	990,480
Other income	122,114
	1,112,594
Expenses:	
Production	413,878
General and administrative	458,199
Depletion and depreciation	2,564,783
	3,436,860
Net loss and deficit for the year	$ (2,324,266)
Loss per share	$ (0.16)

Statement of Changes in Financial Position

	Year ended Dec. 31, 1998	Incorporation on Jan. 13, 1997 to Dec. 31, 1997
Cash provided by (used in):		
Operations:		
Net loss for the period	$ (2,324,266)	$ –
Add non cash items:		
Depletion and depreciation	2,564,783	–
Cash provided by operations	240,517	
Net change in non-cash working capital	(263,427)	–
	(22,910)	–
Financing:		
Issue of share capital	–	8,774,176
Changes in non-cash working capital items	–	1,239,930
	–	10,014,106
Investment:		
Capital assets	(4,969,872)	(3,129,872)
Net change in non-cash working capital	(986,403)	–
	(5,956,275)	(3,129,872)
Change in cash	(5,979,185)	6,884,234
Cash, beginning of period	6,884,234	–
Cash, end of period	$ 905,049	$ 6,884,234
Cash provided by operations per share	$ 0.02	–

See accompanying notes to financial statements.

INFORMATION AS AT DECEMBER 31, 1998 AND DECEMBER 31, 1997.

1. Incorporation and amalgamation:

Avid Oil & Gas Ltd. (the "Corporation") was incorporated under the laws of the Province of Alberta on January 13, 1997 as 723573 Alberta Ltd. On April 8, 1997, the Corporation filed articles of amendment changing its name to Avid Oil & Gas Ltd. and amending its capital structure to create the Class A and Class B shares. On June 27, 1997 the Corporation amalgamated with 735815 Alberta Ltd.

2. Significant accounting policies:

(a) Capital Assets:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations. In 1997 the Corporation's activities were considered to be in the pre-production stage. All costs associated with such activities, net of revenues, were included as a component of capital assets (note 3). Accordingly, there is no statement of earnings included with these financial statements for 1997. All deferred costs were transferred to the Corporation's single Canadian cost centre in 1998 when production in commercial quantities was attained.

In 1998, commercial production was attained and all future costs of exploring for and developing petroleum and natural gas properties and related reserves were capitalized into this cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties is sold, a gain or loss is recorded and reflected in the statement of earnings.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's period end. Future net revenues are calculated after deducting general and administrative costs, financing costs, income taxes and future site restoration and abandonment costs.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated using the unit-of production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

Estimated future site restoration and abandonment costs are provided for over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, cost, technology and industry standards. The annual charge is included in depletion and depreciation and actual removal and site restoration expenditures are charged to the accumulated provision account as incurred.

2. Significant accounting policies (continued):

(a) Capital Assets (continued):

Substantially all of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(b) Per share amounts:

Per share amounts are calculated using the weighted average number of Common Shares outstanding during the year. As at December 31, 1998, there were 14,107,040 weighted average shares outstanding which includes 5,673,800 Class A shares and 843,324 Class B shares (converted to Class A shares at a ratio of 10 Class A shares for 1 Class B share).

(c) Income taxes:

The Corporation follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings (loss) reported in the accounts and takes into account the tax effects of timing differences between statement income (loss) and taxable income.

3. Capital assets:

1998	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum & natural gas properties & equipment	$ 4,971,765	(2,517,425)	$ 2,454,340
1997			
Petroleum & natural gas properties & equipment	$ 1,877,745	–	$ 1,877,745
Pre-production expenses net of revenue	$ 144,353	–	$ 144,353
	$ 2,022,098	–	$ 2,022,098

As a result of a ceiling test calculation as at September 30, 1998, it was determined that the net book value of the Corporation's petroleum and natural gas properties exceeded the net recoverable amount calculated under the full cost accounting guideline and a write-down of $2,100,000 was recorded as additional depletion. The year end ceiling test was conducted using of $15.48/bbl of crude oil and $2.29/mcf of natural gas in which the Corporation passed the ceiling test. If the ceiling test would have been calculated using year end prices of $12.74/bbl of crude oil and $2.25/mcf of natural gas an additional write-down of $590,000 would have been recorded. The ceiling test is a cost recovery test and not intended to result in an estimate of fair market value.

The cost less estimated impairment in value of unproved acreage at December 31, 1998, amounting to $380,000 has been excluded from the depletion calculation.

At December 31, 1998, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are $488,000 of which $47,358 is included in depletion and depreciation in the current year.

4. Share capital:

(a) Authorized:

Unlimited number of voting Class A shares
Unlimited number of voting Class B shares

The Class B shares are convertible (at the option of the Corporation) at any time after December 31, 2001 and before December 31, 2003 into class A shares. The fraction is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2003, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the $ame basis. Effective on February 1, 2004 all remaining Class B shares will be deemed to be converted to Class A shares.

(b) Issued and outstanding:

	Number of Shares	Amount
Class A shares		
Balance, beginning of 1997	–	$ –
For cash as initial private capital (i)	2,500,000	500,000
Initial public offering (ii)	3,173,800	634,760
Share issue costs	–	(793,824)
Balance, December 31, 1997	5,673,800	340,936
Share issue costs	–	(1,016)
Balance, December 31, 1998	5,673,800	$ 339,920
Class B shares		
Balance, beginning of 1997	–	$ –
Initial public offering (ii)	843,324	8,433,240
Tax benefits renounced (iii)	–	(1,107,774)
Balance, December 31, 1997	843,324	7,325,466
Tax benefits renounced		(2,019,189)
Balance, December 31, 1998	843,324	$ 5,306,277
Total share capital at December 31, 1998		$ 5,646,197

(i) On April 9, 1997 the Corporation issued 2,500,000 Class A shares for cash consideration of $500,000.

(ii) On June 27, and July 18, 1997 the Corporation completed the first and secondary closing of its initial public offering, resulting in the issue of 9,068 Units of the Corporation at a price of $1,000 per Unit. Each Unit consisted of 350 Class A shares and 93 Class B shares with a stated value of $70 ($0.20 per Class A share) and $930 ($10.00 per Class B share) respectively, resulting in the issuance of 3,173,800 Class A shares with an aggregate value of $634,760 and 843,324 Class B shares with an aggregate value of $8,433,240.

4. Share capital (continued):

(iii) In accordance with the terms of the offering, the Corporation intends to renounce, for income tax purposes, exploration and development expenditures incurred to holders of Class B shares in the aggregate amount of $8,433,240. The Corporation renounced qualifying expenditures totaling $2,468,303 during 1997 and has incurred qualifying expenditures of $4,542,824 in 1998. As a result of this renunciation, the carrying value of capital assets and share capital has been reduced by $1,107,774 in 1997 and $2,019,189 in 1998 to reflect the tax effect of the flow-through renunciations. The Corporation has the commitment to expend an additional $1,422,113 on qualifying expenditures by July 18, 1999.

(c) Share options:

The Corporation has a share option plan under which the aggregate number of Class A shares reserved for issuance must not exceed 10% of the outstanding Class A shares. At December 31, 1998, 390,000 (December 31,1997-355,000) options were outstanding at prices varying from $0.75 to $1.61 which expire on various dates in 2001 and 2002.

5. Related party transactions:

The Corporation has entered into a Joint Venture Agreement with Ardent Energy Inc. ("Ardent"). Pursuant to this agreement, which terminates 90 days following the expenditure of the flow through funds, the Corporation has the right to participate up to 80% in a program to acquire, explore and develop petroleum properties. At December 31,1998, there is $256,497 (December 31,1997 - $517,000) included in accounts receivable and $233,363 (December 31,1997 - 1,452,000) in accounts payable which relates to joint venture operations with Ardent.

The Corporation has entered into a Management Agreement with Ardent. Pursuant to this agreement Ardent provides management and administration of the business and day to day affairs to the Corporation including, but not limited to, financial, corporate, accounting (other than auditing), general administrative services and provision by Ardent for the requisite office space, equipment and staff as may be reasonably required. During 1998, $480,000 (1997 - $244,000) was paid to Ardent pursuant to this agreement.

6. Deferred income taxes:

The provision for deferred income taxes differs from the amount computed by applying the combined statutory Canadian Federal and Provincial tax rates to earnings before deferred income taxes. The reasons for these differences are as follows:

	1998
Corporate income tax rate	44.6%
Computed expected provision for income taxes	$ (1,036,623)
Increase (decrease) in taxes resulting from:	
Non-deductible crown payments	61,482
Non-deductible expenses	888,349
Resource allowance	(24,395)
Other	(29,639)
Benefit of unrecognized losses	140,826
	$ –

6. Deferred income taxes (continued):

Petroleum and natural gas properties with a net book value as at December 31, 1998 of $1,900,000 do not have an income tax cost base. This amount primarily arose as a result of the flow-through renunciations as described in note 4(b)(iii).

7. Financial instruments:

Financial instruments of the Corporation consist of cash, accounts receivable, prepaid expenses and accounts payable. At December 31, 1998 and December 31, 1997 there are no significant differences between the carrying value of such instruments reported on the balance sheet and their estimated market values.

8. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

9. Subsequent event:

Subsequent to year end, the Corporation established a revolving production facility of $1,400,000 with progressive increases based on actual production performance to a maximum of $2,200,000. Borrowing under this facility bear the banks prime rate plus 0.5%. It is secured by a demand debenture on all assets of the Corporation, a $2.2 million promissory note, and a general security agreement covering all of the assets of the Corporation. The facility will be reviewed annually with the next annual review date to be May 31, 1999.

Corporate Information

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Exchange Listing

The Alberta Stock Exchange
Stock Symbols: AVO.A, AVO.B

Abbreviations

Cdn	Canadian
US	United States
WTI	West Texas Intermediate
bbls	barrels
bpd	barrels per day
Km	kilometer
Km2	square kilometer
mbbls	thousand barrels
Mmbbls	million barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
BOE	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
MBOE	thousand of barrels of oil equivalent
MMBOE	millions of barrels of oil equivalent

Natural gas is equated to oil on the basis of:
10 Mcf = 1 barrel of oil equivalent